

KANSAS DEPARTMENT OF CREDIT UNIONS

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KDCU NEWSLETTER

VOLUME 1 NO. 4

July 17, 2006

INDEPENDENT TESTING FOR BANK SECRECY ACT COMPLIANCE

The "KDCU NEWSLETTER" dated March 15, 2006, included an article on independent testing for Bank Secrecy Act (BSA) compliance. If your credit union has not yet been independently tested, we urge you to review the past article and schedule a date for the testing to be completed.

The lack of an independent test for the credit union's BSA compliance program is still the leading exception being noted in examination reports. This is a requirement of the NCUA Rules and Regulations – Part 748.2(c), and is considered a significant BSA compliance violation. The independent testing should have already been performed and will be considered an examination exception. As stated above, it is imperative this requirement be completed as soon as possible.

ADMINISTRATIVE ACTIONS

Administrative actions are used by the Kansas Department of Credit Unions (KDCU) in instances where normal examination procedures have been ineffective or serious problems exist to warrant stronger action.

Administrative actions in order of severity include:

- Document of Resolution (DOR)
- Letter of Understanding and Agreement (LUA)
- Cease and desist order (C&D)
- Corrective action order
- Order appointing a conservator or liquidating agent

Examinations that result in a credit union being assigned a composite rating of a 3 usually require a DOR; rating of a 4 or 5 requires a DOR, LUA and/or order. The type of administrative action taken is based on the credit union's history of compliance with KDCU supervision, severity of problems, and discretion or recommendation of the financial examiner and review of the recommendation by the Financial Examiner Administrator and Administrator. Issuance of LUAs is done with the involvement of the Financial Examiner Administrator and/or Administrator. Issuance of a C&D, corrective action

order and appointment of a conservator or liquidating agent are done with the involvement by the Administrator pursuant to K.S.A. 17-2206. Administrative procedures instituted or conducted by the administrator are pursuant to K.S.A. 17-2206(g) in accordance with the Kansas administrative procedures act K.S.A. 77-501 et seq.

Administrative actions are the strongest supervisory tool available to KDCU; actions such as merger or liquidation are used as a final remedy for problem credit unions.

Questions concerning KDCU's use of administrative actions are to be directed to the Financial Examiner Administrator at jack.hohman@kdcu.ks.gov or Administrator at john.smith@kdcu.ks.gov; both can be contacted by telephone at (785) 296-3021.

CREDIT UNION COUNCIL VACANCIES

Two Credit Union Council vacancies occur in March 2007. These vacancies are for Council members currently serving from the Kansas first and second congressional districts. If you are interested in having your name or the name of someone you know submitted to Governor Kathleen Sebelius for consideration please contact the administrator at (785) 296-3021 or at john.smith@kdcu.ks.gov.

WARREN MEYER RETIRES

Financial Examiner Principal Warren Meyer retired June 30, 2006 following a 19-year career with KDCU. Prior to employment with KDCU, Meyer retired from the U.S. Air Force where his last duty station was McConnell Air Force Base.

During his tenure with KDCU, Warren developed into a nationally recognized examiner of corporate credit unions serving as the examiner-in-charge for the examination of U.S. Central Credit Union for several years. During 2005 – 2006 Warren was responsible for credit union compliance with the Bank Secrecy Act.

Warren's coworkers at KDCU and colleagues throughout the country will miss his knowledge and expertise. We wish Warren a pleasant retirement.

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ADMINISTRATOR ATTENDS NASCUS ORIENTATION

Administrator John P. Smith recently attended the NASCUS new commissioner's orientation. The orientation provides an opportunity for new commissioner's to gain knowledge about state-chartered credit unions. The commissioners also meet with NCUA Chairman JoAnn Johnson, Vice-Chairman Rodney Hood and Board Member GiGi Hyland. Meetings were also held with Jonathan Gould, Majority Counsel for the Senate Committee on Banking, Housing and Urban Affairs and Emil Henry, Assistant Secretary of the Treasury for Financial Institutions.

EXAMINER PROMOTIONS

Andrew Numelin and Michael Baugh have been promoted to financial examiner senior from financial examiner. Congratulations to both for the achievement.

CHARTER CONVERSION

Crossroads Federal Credit Union converted to a Kansas charter effective July 6, 2006; the name is now Crossroads Credit Union. The credit union is located in Goessel, Kansas with Kelly Schrag as the manager.

KDCU INTERNET WEB SITE UPDATED

<http://www.kansas.gov/kdcu/> is the address for KDCU's updated web site. Information on the site includes:

- Credit union locator map
- Frequently asked questions about credit unions
- Council and KDCU staff members listing
- KDCU Bulletins, Newsletters, and forms
- Consumer and volunteer resource information
- How to file a complaint
- Links to NASCUS, CUNA, NCUA, KCCU, and KCUA

We ask you try the KDCU site. The site will be continuously updated.

Suggestions for improvement or adding additional information can be sent to kdcuoffice@kdcu.ks.gov.

KDCU PLANNING SESSION

On June 29th KDCU staff engaged in an in depth planning session. Results of the planning session include a revised mission statement.

The mission of the Kansas Department of Credit Unions is to protect Kansas citizens and credit union members from undue risk through the examination and supervision of Kansas chartered credit unions by assuring safe and sound operation and compliance with applicable laws and regulations.

Staff described KDCU's strengths, weaknesses, and developed recommendations for improvement. Three teams were formed to carry out a detailed work plan with time-lines for completion. The work plan includes development of new regulations if necessary, review and revision of existing regulations, policies, procedures and addressing recommendations from the Legislative Post Audit and NASCUS accreditation reports.

KDCU STAFF

ADMINISTRATOR

John P. Smith

FINANCIAL EXAMINER ADMINISTRATOR

Jack Hohman

FINANCIAL EXAMINER PRINCIPAL

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